

ADDRESS
of the
General Manager
MR. D. E. KILGOUR



Delivered at the
ANNUAL MEETING
January 31st, 1935



NORTH AMERICAN LIFE
ASSURANCE COMPANY
HEAD OFFICE - TORONTO, CANADA





**Address of Mr. D. E. Kilgour, General Manager, North American
Life Assurance Company, delivered at the Annual
General Meeting, held January 31st, 1935.**

THE Directors' Report and Financial Statement give in concise form all the important figures relative to the operations of the Company during the year 1934. It is my pleasure to deal with the figures in greater detail and by use of comparisons and general observations to give our policyholders a more complete story of the Company's progress.

New Business for the year amounted to \$28,302,553, an increase of \$4,057,300, or 17% over that of the previous year. It is a commentary on the needs of the public that the increase in the new business is due primarily to the large number of pension bonds that were bought during the year. The fact that an ever-increasing number of people are turning to life assurance companies to meet their needs in this direction is indicative of the confidence that Life Assurance as an institution enjoys, and of the fact that our companies by the very nature of their business as well as by their inherent soundness are specially fitted to function in this way.

The Company maintains active agencies throughout Canada, and also has branches in Newfoundland, and in the states of Michigan and Washington. A large proportion of our branches share in the increase in business which is a reflection, we believe, of the general improvement that has taken place in business during the past year, and of a greater activity and efficiency on the part of our Field Force.

Total Business in Force reached the sum of \$192,019,612, being an increase of \$3,385,593 for the twelve months.

It was inevitable with the cumulative effects of the depression during the past few years that the total business in force should have receded. This has been true in Canada as well as in the United States, although in this respect Canada's experience has been more favourable by comparison. In 1930 the total business in force in Canada in Dominion Registered Life Companies amounted to \$6,492,000,000. Though this increased by over one hundred million dollars during 1931, the amount in force at the end of 1933 had declined to \$6,248,000,000. While we have not definite figures for December 31st, 1934, we should not be surprised to find the total insurance in force about the same as it was at the end of last year and as a matter of fact slightly more than it was in 1929. During the same period our figures, though somewhat more favourable, followed the general trend.

It is not too much to say that the downward trend in new business and the slight decrease in business in force has brought prominently to the fore the very significant fact that a life assurance company's success does not depend upon continued increases, but upon the basic fact that it shall maintain adequate reserves for the business in force.

The immediate deduction from the figures that have been adduced in respect of business as a whole in Canada is that during the past few years terminations have been equal approximately to the new business effected. During 1934, the terminations of our Company were \$3,747,000 less than the terminations for the previous twelve months. While it is to

be regretted that the figures respecting the terminations are still much too high, it is at least a pleasure to observe that there has been a reduction in the rate of the terminations and that it may have been due in part to an improvement in the financial position of our policyholders. During the early part of the depression, there was a tendency to liquidate on realizable assets for the purpose of meeting pressing liabilities. To a certain extent, that movement has run its course and policyholders, partly through their ability to keep their policies in force and partly perhaps from a strengthened realization of the value of their life assurance to them, have—according to the figures not only of our own Company but of other leading companies—terminated their contracts to a much smaller relative degree.

The Total Income of the Company amounted to \$10,030,685 in 1934—an increase of 7%, or \$628,384 over the corresponding figure of the previous year. Of this amount, the premium income alone showed an increase of over \$373,000.

Payments to Policyholders for the year amounted to \$5,641,184. This is somewhat less than that paid out during the previous year. The reduction was due to the decreased claim on the Company in connection with surrendered and matured policies. The amount paid in death claims was practically the same as the previous year, being \$1,239,540. The actual loss of the Company in respect of these claims—being the amount paid out less the reserve held under the policies—was considerably less than the previous year. In this connection it should be observed that the mortality rate of the Company continues to be favourable and to reflect careful selection on the part of the agency force and of the Company's medical and actuarial officers.

Contrary to what might have been expected, general mortality during the years of the depression has been lower than in normal times—a fact which may be due in part to the circumstance that organized relief has been given to a considerable portion of our population that had not received previous attention. If it is true that people in normal times eat more than is good for the health, conversely it may be true that tightening the belt may result in improving health conditions.

Expenses—Due to the recession in business in force which has already been referred to and which has been experienced to a certain extent by practically all life companies, the immediate effect was that the trend in expense rates was somewhat higher as the same overhead had to be spread over smaller business. In many commercial concerns the matter of immediate solvency demanded a reduction in expenses to a point where operations could continue. The life assurance companies were not confronted with this difficulty and generally speaking, took the point of view that they had an obligation to their employees and their field representatives to retain their services. As far as possible, the companies did not dismiss employees, although it was a general rule not to take on further help. Similarly the companies made an effort to retain their field representatives and to carry them through the period of the depression. A ruthless attitude on the part of the companies might have enabled them to reduce their expenses somewhat, but would not have been creditable to their humanitarian instincts nor in the end have contributed to their real welfare, since the success of a life assurance company very definitely and directly depends upon the maintenance of a healthy, aggressive and contented personnel in the field and office. Never-

theless, our Company has paid very serious attention to the matter of expenses and has inaugurated certain expense controls that have had the effect of showing a definite reduction in expense rates.

Assets—The Company's total assets now amount to over forty-eight and one half million dollars, showing an increase during the year of nearly two million dollars. The invested assets show the following distribution, which is indicative of the high degree of diversification: Government and Government Guaranteed Bonds 19.2%; Municipal Bonds 17.3%; Public and Other Bonds 9.6%; Preferred Stocks 2.4%; Bank, Trust and Loan Company Stocks 3.1%; Stocks in Public Utility Corporations having no prior funded indebtedness 2.0%; Policy Loans 17.7%; Mortgages on city properties 20.6%; on farm properties 2.9%; agreements for sale of real estate .7%; Head Office Building 2.0%; other real estate 1.9%; and cash .6%.

During the year a substantial increase occurred in the Company's holding of Government, Municipal and Public Utility Bonds, while the amount invested in mortgages has been reduced materially. It is gratifying to note that the demand for policy loans has lessened and that they amount to 17.7% of the invested assets as compared with 19.2% a year ago.

In past years the Company has never taken into surplus the excess of the market values of investments over book values—even when this amounted to a very large sum. The reduction in market values which has occurred during recent years has therefore not had the effect which it otherwise might have had. While adhering to the point of view that book values should not as a rule be written up or down, important write downs have been made because it was be-

lieved that in the case of a number of the investments the original book values would not have been realized in the event of their sale or maturity. During the past three years the total of such write downs has slightly exceeded three million dollars, approximately \$400,000 of which was provided during 1934. It is true that in individual cases the book values may be in excess of realizable values, but in the aggregate a proper and conservative valuation of the Company's securities would show an excess over the valuation shown in the Company's books and this margin, consistent with past practice, has not been taken into surplus.

Policy Reserves — The Company's policy and annuity reserves now amount to more than forty million dollars. All the reserves are on the net level premium basis and they are substantially greater than the minimum reserves authorized by the Dominion Insurance Act.

Special Reserves and Surplus Funds —The Company now holds an investment reserve of \$600,000 to provide for contingencies in connection with those classes of assets such as mortgages which cannot be subjected to a market valuation. Within its surplus funds, the Company holds a dividend reserve to provide for its dividend payments during 1935, and also a reserve for surplus earned in the past on policies with dividends payable other than annually. During recent years there has been a decided trend towards the annual dividend basis and as a result this latter reserve is being gradually disbursed. As a result of this, total surplus funds of the Company will not increase as they otherwise would, but the policy of the Company of maintaining a large free surplus together with the Company's well established earning power, should assure the continuation of satisfactory policy dividends.

Interest Rate—It will be noted that the interest rate earned on the invested assets is again below that of the previous year. This reduction may be accounted for to a great extent by the lower yields which are obtainable on new investments. It is to be expected that these low yields will continue for some considerable time and it is unlikely that interest will be earned at a higher rate than at present, in the near future. While the yield on new investments has dropped by nearly 1%, the average rate of interest earned on the Company's assets has declined only from 5.38% to 5.24%. This exemplifies in a striking way, the advantage of having a share in the assets of a company where mixed investments for varying periods prevent a shrinkage in average interest rate commensurate with the fluctuations of the current interest rates obtainable.

General—I have referred on previous occasions to the great strength exhibited by our life assurance companies through economic crises. I think it is well at times such as the present that our policyholders and the assuring public generally should have a greater appreciation of this fact. This record has not been accidental. It has been due to the circumstance that the basic principles upon which life assurance is founded are sound and scientific; that the Companies have been in the hands of men who not only have been trained carefully but have had a very high appreciation of trusteeship; and that the business has been carried on under sane laws and has received competent governmental supervision.

During the past one hundred years, this continent has been through five major crises. While the amount of new business has fluctuated, and even on occasions as in the past few years, the total business has receded, it is interesting to observe that except in the year

1877, when the total assets of the Companies fell slightly, they have otherwise steadily increased. During each of these crises payments to policyholders became exceptionally heavy and did a great deal to ameliorate distress and stabilize conditions.

Mr. John S. Thompson, a distinguished Canadian and an official of a great American life assurance company, in a study of this subject has said:—"The conspicuously strong and constructive showing of the life companies during the last five years as compared with the trend of other recognized indices of national welfare should be abundantly satisfactory to both policyholders and company managers". Again: "Through decade after decade, meeting and solving internal problems and adjusting themselves to investment, underwriting and agency conditions of widely different eras, they have progressed steadily, and, at times, strikingly, generally at a rate of growth greater than that enjoyed by organizations distributing merchandise and services of seemingly greater popular appeal. Presenting to the public only the unselfishness of protection and the desirability of suitable provision for old age, all backed by an organization of unquestionable security, the life companies have accumulated funds which for a considerable period have constituted an increasing share of the national wealth. It would be strange indeed if in the presence of an even greater need for security, the institution of life assurance should not continue to increase in size and usefulness after the present emergency shall have become, like its predecessors, a matter of history."

As we approach a general election, we shall probably hear much about vested and predatory interests. A vested interest may not be predatory, nor a predatory interest vested. Honesty is not an exclusive attribute of a class, much less of a political party. The

average man has no greater desire to plunder than to be plundered. He may not believe that it is more blessed to give than to receive, but he has no obsession that it is an honest thing to take what does not belong to him, or to fail to pay what he owes.

Now it is a common thing to think that life assurance is big business and that in some way it can stand the inroads of those who wish to tax it outrageously, or the importunities of those who think that a life company should keep its own pledges inviolable, but should graciously give way to its debtors. Though life assurance is big business and has a definite capitalistic background, in its structure and in its service it embodies what is best in socialism.

Let us take the case of our own Company. There are about 84,000 policies in force involving 192 million dollars of assurance, with an average policy of approximately \$2,300. Each, on the average, has an equity of \$528 in the company's assets. Not one cent of the assets belongs to anybody but the policyholders and not one cent of the surplus funds finds its way to anybody but the policyholders.

In the assets of a life assurance company, there are a variety of investments—mortgages on real estate, high-class industrial bonds, municipal and government debentures, etc. Has it occurred to the citizens of those municipalities who have declined to pay interest or wish to reduce the interest rate on their debentures that they would hold to approbrium the company that would fail to honour its policy contracts, though

that same company might hold their debentures? Has it occurred to the individual who would evade if he could the payment of principal and interest under his mortgage that the life company to which he was so indebted might be called upon to pay his widow a claim under his policy and that to pay that claim the company would be depending upon what he and others owed to it?

A life company is largely a great service organization devoted to its members in the first place and also to those whom it has never tried to exploit, but to whom, through a desire to benefit reciprocally, it has loaned policyholders' funds in the expectation that they would be returned and that in the meantime an agreed rate of interest would be paid thereon. Despite the casuistry of those who argue that big institutions through some form of wizardry resulting from their size and strength can find money for every purpose and for that reason may be preyed upon with impunity; despite the suggestion that men in places of high responsibility may be actuated by ulterior motives, it is still true of our great financial institutions generally, and certainly of our life assurance companies that they belong to the public at large and that they are managed by men who are chosen for their ability and devotion to those whom they serve.

North American Life in a very real sense is your Company; its success is your success. The help that you may render its field men, the good words you may speak of the Company, and the business you may bring to it, directly or indirectly, cannot fail to benefit you because you are the Company.

